

**Department of Legislative Services**  
 Maryland General Assembly  
 2008 Session

**FISCAL AND POLICY NOTE**

House Bill 1229 (Delegate G. Clagett)  
 Ways and Means

**Tax Credits for Energy Star Appliances and Solar Water Heaters**

This bill creates a tax credit against the State income tax for individuals who purchase specified Energy Star products and solar water heaters. Qualifying products must be purchased between July 1, 2008 and December 31, 2008. The amount of the credit is equal to the amount of sales tax paid on these products, not to exceed the tax liability in that year. The bill requires the Comptroller to report to the General Assembly specified information about the credit by July 1, 2009.

The bill takes effect July 1, 2008 and applies to tax year 2008.

**Fiscal Summary**

**State Effect:** General fund revenues would decrease by \$7.5 million in FY 2009 due to credits being claimed by eligible individuals. General fund expenditures would increase by \$34,000 in FY 2009 which reflects one-time tax form changes and computer programming expenditures.

(\$ in millions)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
GF Revenue	(\$7.50)	\$0	\$0	\$0	\$0
GF Expenditure	.03	0	0	0	0
Net Effect	(\$7.53)	\$0	\$0	\$0	\$0

*Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect*

**Local Effect:** None.

**Small Business Effect:** None.

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## **Analysis**

**Bill Summary:** The bill creates a tax credit equal to the amount of sales and use tax paid for solar water heaters and specified Energy Star products purchased between July 1, 2008 and December 31, 2008. Qualifying Energy Star products include: • air conditioners; • clothes washers and dryers; • furnaces; • heat pumps; • standard size refrigerators; • dehumidifiers; and • programmable thermostats.

The amount of the credit cannot exceed the tax liability in the year, and any unused amount cannot be carried forward to any other tax year.

**Current Law/Background:** Individuals can receive State grants for the installation of solar water heaters and can qualify for various State and federal incentives as discussed below.

### *State Incentives*

Chapter 6 of the 2007 special session created a sales tax-free period for Energy Star products beginning in fiscal 2011. Chapter 6 exempts from the State sales and use tax the purchase of specified Energy Star products or solar hot water heaters made on the Saturday immediately preceding the third Monday in February through the third Monday in February.

Among its many provisions, Chapter 296 of 2000, the Maryland Clean Energy Incentive Act, provided a sales tax exemption through July 1, 2004 for certain products that met or exceeded Energy Star efficiency requirements.

The Solar Energy Grant Program, which is funded with general funds, is administered by the Maryland Energy Administration. Grants are awarded for the acquisition and installation of solar and geothermal energy property that meets applicable performance and quality standards and certification requirements specified by MEA. **Exhibit 1** lists the current grant limits. The proposed fiscal 2009 State budget includes \$590,519 in funding for the program.

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**Exhibit 1**  
**Grant Award Limits under the Solar Energy Grant Program**

**Grant Award Limits**

Photovoltaic property (residential)	\$3,000 or 20% of installed cost
Photovoltaic property (nonresidential)	\$5,000 or 20% of installed cost
Solar water heating property	\$2,000 or 20% of installed cost
Geothermal property	\$1,000

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In addition to the Solar Energy Grant Program, MEA operates several programs designed to promote energy efficiency, including the Energy Efficiency Education, Home Performance with ENERGY STAR, Farm Energy Audit Implementation, Windswept, and Community Energy Loan Programs.

MEA advises that several Maryland utilities have recently filed plans with the Maryland Public Service Commission that would provide rebates for many of the products eligible under the bill.

*Federal Incentives*

The U.S. Environmental Protection Agency and the U.S. Department of Energy have developed the “Energy Star” labeling program to help consumers identify the most energy-efficient products available on the market.

The federal Energy Policy Act of 2005 provides for numerous energy efficiency incentives, including tax credits for consumers for implementing specified home improvements including adding insulation, replacement windows, and certain high efficiency heating and cooling equipment. The maximum amount of the tax credit for all improvements is \$500 during the two-year period of the tax credit. This tax credit applies to improvements made from January 1, 2006 through December 31, 2007. Tax credits are also available for qualified solar water heating and photovoltaic systems.

In December, 2007, legislation to extend several of the energy efficiency tax incentives fell one vote short of the 60 required to end a filibuster in the Senate. Some incentives were previously extended through 2008 by the 109th Congress, in December 2006. As of December 31, 2007, however, the majority of the energy efficiency incentives provided under the Energy Policy Act of 2005 have expired.

**State Revenues:** Tax credits could be claimed in tax year 2008 for qualifying products purchased between July 1, 2008 and December 31, 2008. As a result, general fund revenues could decrease by \$7.5 million in fiscal 2009. This estimate is based on the estimated Maryland market penetration data from the U.S. Department of Energy/EPA Energy Star Program.

**State Expenditures:** The Comptroller's Office reports that it would incur a one-time expenditure increase of \$34,000 in fiscal 2009 to add the credit to the personal income tax form. This includes processing changes to the SMART income tax return processing and imaging systems and systems testing.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Comptroller's Office, Maryland Energy Administration, Department of Legislative Services

**Fiscal Note History:** First Reader - March 7, 2008  
ncs/hlb

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